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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996	)	**CC Docket No. 96-128**

REPLY OF SPRINT CORPORATION

In its opposition to AT&T's petition for reconsideration of the Commission's Second Report and Order in this proceeding,[1] American Public Communications Council (APCC) mischaracterizes Sprint's position in its previous submissions in this docket. Sprint submits this reply to set the record straight.

Citing pp. 8-11 of Sprint's August 26, 1997 Comments on Remand Issues, APCC claims (at 29):

> While it submitted a "study" on some of its costs, Sprint itself seems unconvinced about its own numbers. It's [sic] arguments about the direction the Commission should follow rely more on the dubious NYNEX submission than on its own analysis.

APCC's contention is off the mark in three respects. First, Sprint did not submit its analysis of its LECs' payphone costs until its September 9, 1997 Reply Comments (since this analysis had not been completed in time for submission with its initial

[1] FCC 97-371, released October 9, 1997.

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comments), and thus its reliance on the NYNEX cost data[2] in the initial comments cited by APCC in no way suggests that Sprint was "unconvinced about its own numbers." However, even in its reply comments, Sprint continued to rely on the NET data not because of any lack of faith on the part of Sprint in its own cost data, but rather because NET-Massachusetts appeared to Sprint to be the "bellwether" service provider – the service provider exhibiting the lowest costs over a reasonably broad scale of operations. NET's reported unit costs for local coin calls were 16.7 cents per call, which was lower than Sprint's fully allocated cost per call (based on Sprint's actual traffic volumes) of 24.3 cents per call. In urging that primary reliance be placed on a different bellwether PSP, Sprint was merely willing to have its own payphone operations, for purposes of per-call compensation, held to a stricter standard of a possibly more efficient operator.[3]

Second, APCC improperly suggests (by stating that Sprint's study related only to "some of its costs") that Sprint's study of its payphone costs was incomplete. That is not the case. The Sprint study covered all of the costs of its LECs' payphone operations.

Third, APCC incorrectly disparages the NET unit cost Sprint relied on. This was not, as APCC would have it, a "dubious" figure. On the contrary, NET, in an attempt to

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[2] Specifically, data for New England Telephone's (NET's) payphone operations in Massachusetts.

[3] Far from walking away from its own payphone costs, Sprint was urging the Commission to take them into account and believed that doing so would be consistent with the per-call rate it was advocating. After adjusting the Sprint payphone costs to exclude costs not properly attributable to dial-around and subscriber 800 calls, and adjusting those costs for the higher call volumes reported by other PSPs (which is again consistent with Sprint's efficient service provider concept), Sprint's costs were fully consistent with the proposed rate – in the range of $.06 per call – it derived from an analysis of the NET costs (see Sprint Reply Comments on Remand Issues at 12-13).

raise its local coin rate to$.25, informed the Massachusetts DPU that its payphone costs for local coin calls are $.167 per call. See Sprint's Comments on Remand Issues, Attach. A. NET had a clear incentive to claim the highest possible unit costs. In light of the refusal of Bell Atlantic (NET's parent) to make the underlying details of that cost public, the Commission is entitled to take NET's stated unit cost of $.167 at face value,[4] and to proceed from there to make the adjustments necessary to reflect the costs of dial-around and subscriber 800 calls.

APCC's opposition also reflects a fundamental misunderstanding of the "bellwether" concept. At p. 25 of its opposition, APCC claims that the bellwether provider would "most readily fit the situation of the larger independent PSPs." As is clear from the cases cited by Sprint at pp. 6-8 of its Comments on Remand Issues – cases spanning close to a half century of the Commission's existence – the bellwether provider is not simply any service provider selected at random but instead is the provider having the lowest costs, and a scale of operations that is reasonably representative of other providers in the industry.[5] And the reason for this is very simple: the Commission's long- held belief that in a multi-provider market, rates should be based on the costs of the most efficient provider, so as not to reward inefficiency and burden the public with the costs of sustaining the operations of inefficient providers. Under these criteria, the larger independent PSPs simply do not qualify. Their claimed costs are roughly twice the level of the costs of LEC PSPs, such as NET-Massachusetts, the Sprint LECs and

[4] See Reply of Sprint, October 6, 1997.

[5] See in particular, The Western Union Telegraph Co., 25 FCC 535, 581-83 (1958).

Southwestern Bell. Furthermore, the LEC PSPs have a generally larger scale of operations and thus are more representative than the independent PSPs.[6]

In short, APCC's opposition to AT&T's petition for reconsideration reflects both a mischaracterization of the cost data discussed by Sprint in its comments and reply comments on remand and a misunderstanding of the bellwether concept.

Respectfully submitted,

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[6] As noted in Sprint's reply comments (n.14 at 10) Peoples Telephone, the largest independent PSP, has reportedly has "nearly 40,000 payphones." However, NET in Massachusetts has over 45,000 payphones; Sprint has roughly 50,000 payphones, and Southwestern Bell, whose cost data were presented by AT&T in its petition for reconsideration, has an even larger number of payphones. In short, the independent PSPs, with their far higher costs and smaller scale of operations, simply do not qualify as bellwether providers.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Reply Comments of Sprint was Hand Delivered or sent by United States first-class mail, postage prepaid, on this the 20th day of January, 1998 to the below-listed parties:

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